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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

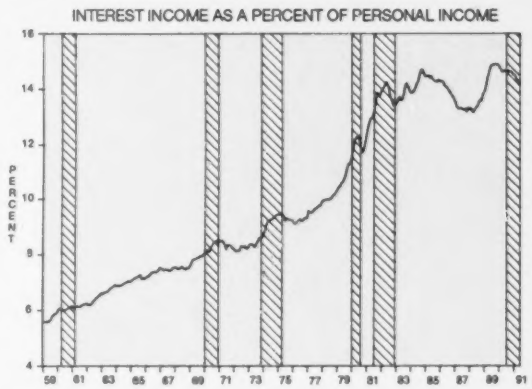
A Tepid Recovery Ahead

With evidence building that the economy is in the process of bottoming—if not actually expanding—the arbiters of economic opinion are shifting gears, no longer debating the likely depth and duration of the current recession, but rather, the contours of recovery. In the past, economic growth rates of seven percent have been typically posted during the first year of recovery from preceding postwar recessions, a prospect which is already unsettling the inflation-wary bond markets and steeling the resolve of those Federal Reserve policymakers who are disinclined to undertake further monetary easing initiatives.

At this juncture, however, fears of a robust, inflation-generating business rebound seem premature. This is especially so when you consider that one of the major engines of previous recoveries, consumer spending, is unlikely to provide a significant lift to the economy—notwithstanding May's admittedly hefty one percent jump in retail sales. Hobbled by lackluster income growth, anemic savings and lofty debt burdens, a wide gap currently exists between any rising desire to spend, and the wherewithal to do so. Until labor market conditions improve and income growth revives, this divergence will persist, as will the odds of a tepid recovery.

To be sure, there are budding signs of life in the labor market. Although jobs are still hard to come by in many areas and industries, fewer people seem to be losing their jobs and more people seem to be finding work. Since March, for example, initial claims for state jobless benefits have been trending lower and, by the end of last month, were running 26 percent below their late winter peak. Perhaps more important is the fact that improvement is starting to show up in the employment numbers. According to the Labor Department, nonfarm payroll jobs rose by 59,000 persons in May, the first monthly rise since last June. Factory payrolls edged higher last month for the first time in more than a year, while the average workweek lengthened and overtime worked increased. Also increasing were average hourly earnings, which rose by 0.4 percent in May, identical to the rise posted in April.

Nonetheless, while Wall Street shudders at the prospect of a healthier job market and the recession's end, these developments do little either to alleviate household financial stress, or to increase the odds of a muscular consumer-led recovery. For one thing, the key that unlocks the spending door is more income and, notwithstanding the recent bounce to wage growth, consumers still find their wallets severely pinched. Over the past 12 months, personal income has risen by just a shade more than three percent—far lower than the six percent plus increases that were being posted as recently as a year and a half ago. After adjustment for inflation, the news is even bleaker. Real personal income has actually dropped over the past year, falling by 1.2 percent—one of the largest recession-related contractions ever. For another, although spending levels have been lethargic, they have generally kept pace with the ups and downs of income. The result is a savings rate riveted in the 3½ percent neighborhood, abysmal by almost any yardstick, and down from 5¼ percent a year ago.



Source: Commerce Department

White Collar Blues

Nor does a quick turnaround in household income or savings prospects appear to be in the offing, even if aggregate output is expanding once again. Changes in the jobless ranks and shifts in the composition of personal income do more to explain the anemic performance of income growth in recent months than simply a cursory glance at such broad-brush statistics as payroll employment and the jobless rate. Take, for example, the newly unemployed. While the

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number of jobs lost during this recession was not unusually large, the difference lies in where the ax fell.

This time around nearly ten percent of the 1.3 million jobs lost since last summer has come from the ranks of so-called "white collar" workers. These include many highly-paid managerial and professional employees who found themselves at the cutting edge of vigorous corporate cost-cutting in such industries as banking, insurance and real estate. This is far different than past experience. In each of the four recessions preceding this one, white collar employment continued to expand, while the "blue collar" ranks shouldered the entire jobless burden. Although this development may not seem surprising in light of the growth of the white collar workforce over the past two decades, it is problematic as to whether or not many of these jobs will ever reappear. While they might, some of the newly unemployed apparently do not think so. The labor force participation rate for men in the 55 to 64 age group has been dropping for months, a development which suggests that many laid-off employees have decided to forego a job search, and have decided instead either to become self-employed or to retire and

Short Term Paper Outstanding
(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	196,712	- 176	- 18,593
New York City (6/5/91)	32,277	+ 92	- 7,869
Commercial Paper (6/5/91)	542,832	- 1,799	- 5,861

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	312,334	- 973	- 10,420
New York City (6/5/91)	55,876	+ 87	- 2,452

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/29/91)	1,041,437	+ 2,311	+ 31,427
New York City (6/5/91)	173,781	- 1,320	- 9,552

Financial Markets

	Friday 6/14/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.72%	+ .01	- 2.21
180-Day Bills†	6.02	+ .06	- 2.00
Longest Bills†	6.33	- .03	- 1.71
Recent Issues:			
6¾s 5/31/93	6.98	+ .01	
7⅛s 5/31/96	7.92	- .03	
8s 5/15/01	8.27	- .01	
8⅛s 5/15/21	8.47	-0-	
Municipals:			
Bond Buyer—20 Bond Index* (6/13/91)	7.19%	+ .13	- .01
Blue List Total ($ Million)	$1,574	- $ 17	+$ 172
30-Day Visible Supply ($ Million)	$3,155	+ $348	+$1,980
Total	$4,729	+ $331	+$2,152
Corporates:			
Moody's Aa Composite (6/13/91)	9.32%	+ .07	- .11
30-Day Visible Supply ($ Million)	$ 200	- $550	- $ 900
Stocks:			
Dow-Jones Averages:			
Industrials	3,000.45	+ 23.71	+ 64.55
Transportation	1,231.14	+ 3.71	+ 37.88
Utilities	210.20	+ .94	- 1.51
65 Stocks	1,079.67	+ 6.46	+ 23.02
N.Y.S.E. Composite Index	209.34	+ 1.15	+ 11.49
N.Y.S.E. Avg. Daily Vol. for Week (000's)	154,281	- 20,930	+ 3,465

*34% Taxable equivalent 10.89%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/14/91	Week Ago
Overnight	5.75%	5.81%
1 month	6.00	6.06
3 month	6.13	6.13
6 month	6.38	6.31
1 year	6.88	6.81

FOREIGN EXCHANGE SPOT RATES New York Opening (6/14/91)	Currency Per U.S. $	Week Ago
Belgium	36.98	36.36
Canada	1.1444	1.1468
France	6.1065	5.9935
Germany	1.7960	1.7685
Italy	1340.80	1312.00
Japan	140.95	140.00
Mexico	3016.20	3013.40
Netherlands	2.0240	1.9927
South Korea	713.63	712.16
Switzerland	1.5415	1.5170
Taiwan	26.92	26.88
U.K.*	1.6325	1.6726

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/14/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.7%	-6.1%

rely on non-wage income.

Lower Interest Rates Also Hurt

However, it may be the wrong time to depend upon non-wage income, especially interest income, to maintain a formerly wage-supported lifestyle. One of the principal features of the squeeze on household cash flow has been the plateauing of interest income. For although household installment debt stands at a near-record, and well-publicized, 18.2 percent of disposable income, the opposite side of the ledger is that people are deriving a near-record proportion of their personal income from interest receipts. As shown in the chart, this proportion has been rising virtually nonstop for decades, and the fact is that households actually earn more than twice as much in interest income—$680 billion—as they pay out in interest expense—$320 billion. As a result, the downdraft in interest rates engineered by the Federal Reserve has hurt as well as helped, hitting the consumer right in the wallet by bringing interest income growth to a halt. With no offset at hand, the slow wage growth and the plateauing of interest income have delivered a one-two punch which will take a toll on consumer spending, hence the upturn. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/12/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	253.951	- .820	+16.251
Loans to Depository Inst.	.349	+ .120	- 1.189
Float	.295	- .315	- .277
Total Reserve Bank Credit	291.165	- .563	+11.028
Treasury Deposits with Federal Reserve Banks	5.158	- .784	+ .584
Currency in Circulation	290.988	+ .320	+25.087
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	247.697	+ 1.644	+15.985
Member Bank Reserves:	6/12/91		
Total Reserves Held	50.103	+ 1.634	- 9.498
Excess (Deficiency)	.815	- .290	+ .336
Net Free Reserves	.540	- .325	+ .793

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (6/3/91)	850.6	+ 6.9	+ 5.8
M2 (6/3/91)	3,387.1	+ 4.1	+ 3.8
M3 (6/3/91)	4,159.4	+ 0.5	+ 2.6
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 6/14/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.72%	6.04%	6.33%
* Federal Agencies	5.75	5.88	6.15
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.21	6.44	6.82
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.18	6.38	6.88

‡ Finance Company Paper–Prime

5- 14 days	5.65%
15- 29 days	5.72
30- 59 days	5.95
60- 89 days	6.03
90-179 days	6.07
180-239 days	6.00
240-270 days	6.15

‡* Bankers' Acceptances

Jul.	5.98%
Aug.	6.00
Sep.	6.03
Oct.	6.03
Nov.	6.08
Dec.	6.08

‡ Industrial Paper–Prime

30- 89 days	6.01%
90-120 days	6.05

†Federal Funds Effective Rate 5.63%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91	$ 4,126	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91	- 2.6	- 1.6	1.7
Change in Consumer Prices*	May '91 n	3.6%	2.4%	2.4%
Change in MH Cost of Living Index*	May '91 n	2.4%	7.2%	3.6%
Change in Producer Prices*	May '91 n	7.2%	2.4%	3.6%
Civilian Employment (Thousands of Persons) †	May '91 n	116,591	117,398	118,277
Unemployment as % of Civilian Labor Force †	May '91 n	6.9%	6.6%	5.3%
Personal Income*	Apr '91	$ 4,755	$ 4,752	$ 4,604
Leading Indicators Composite Index (1967=100) †	Apr '91	142.2	141.4	145.2
Industrial Production Index (1977=100) †	May '91 n	105.8	105.3r	109.4
Net Change in Consumer Installment Credit †	Apr '91 n	$ 1.70	- $ 0.32	$ 1.12
U.S. Merchandise Trade Balance †	Mar '91	- $ 4.05	- $ 5.50	- $ 8.62
Plant and Equipment Expenditures*	3rd Q'91 n	$ 553.5(a)	$ 544.2(a)r	$ 534.9
Private Housing Starts (Thousands of Units)*	Apr '91	957	901	1,217
New Construction Expenditures*	Apr '91 n	$ 392.6	$ 389.3r	$ 444.7
Total Business Inventories †	Apr '91 n	$ 815.2	$ 819.6r	$ 813.0r
Total Business Sales †	Apr '91 n	$ 529.6	$ 523.1r	$ 535.4r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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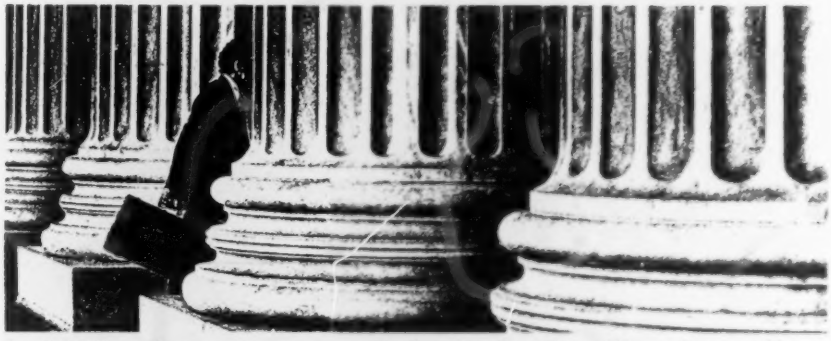
Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

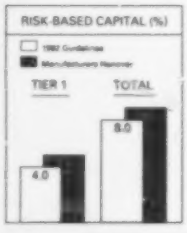
We exceeded these standards 2 years ago.

At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.



Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

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